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# SUPPORT POLICIES FOR AGRI-FOOD EXPORT PROMOTION IN THE REPUBLIC OF MOLDOVA

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**Abstract:** *Agri-food trade has expanded over the recent decade in the Republic of Moldova. Trade policies promoted by the Republic of Moldova are mostly oriented towards product diversification, knowledge transfer and promotion of new competitive goods with high added value for domestic and foreign markets. The trade balance remains dynamic with significant fluctuations in product categories over time and countries of destination, due to climatic and trade shocks. In this context, the aim of the paper is to provide an analysis of agri-food sector and external trade, assess the impact of external factors over the national economy and opportunities for the better export targeting, and identify possible solutions to increase resilience to agro-food foreign trade shocks. For such tasks were used the statistical methods of analysis and informal interviews with main stakeholders. This paper's outcome incorporates the scale, significance and dynamics of the agri-food export including the continued evolution of the regulatory agencies involved and the critical role of support policies provided by other sectors of national economy for the export promotion.*

**Key words:** *Agri-food trade, trade policies, export promotion*

## INTRODUCTION

Over the past two decades, Moldova's economy has gone through significant structural changes. The service sector has been the largest contributor to the economic growth, while tradable sectors, namely agriculture and manufacturing, have stagnated. Moldova's recent macroeconomic performance has been volatile, reflecting exposure to global economic and climatic risks.

The agricultural sector is characterized by large exposures, which often, but not exclusively, come from climate phenomena. There are different types of risks faced by agriculture in several European countries, including the Republic of Moldova.

Trade policies promoted by the Republic of Moldova are mostly oriented towards product diversification, knowledge transfer and promotion of new competitive goods with high added value for domestic and foreign markets. The current situation in the international trade with agri-food products placed the Republic of Moldova in a difficult position.

In this context, the paper presents an analysis of agri-food sector and external trade, impact of external factors over the national economy, opportunities for the export to EU countries, and possible solutions to increase resilience to agro-food foreign trade shocks.

## MATERIAL AND METHODS

Given the challenges of the recent development in food sector, the following research methods were used: analysis of the food sector structure and development tendencies, analysis of the country's food security, analysis of the agri-food trade for main groups of agri-food products and countries, analysis of the impact of external shocks over the export development and country's economic stability and food security.

As main sources of primary information for this study were used reports elaborated with the contribution of authors in the framework of the FP7 project "AGRICISTRATE", data from the publications of the National Bureau of Statistics of the Republic of Moldova and the UN Comtrade data base. As a secondary source of information a range of articles and studies elaborated by local and foreign experts were used.

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## RESULTS AND DISCUSSIONS

Historically, agriculture is one of the driving forces of the economy, nature and culture in the country for many centuries. In this environment farming methods adapted to the specific climatic, geographical and economic conditions have been formed. The agricultural sector employs about 29% of the population and the contribution of agriculture to GDP in recent years is around 12-13% [6]. In the context of Moldova's European aspirations, the modernization of the agri-food sector must comply with European patterns and trends that will allow adapting this sector to the requirements of international markets, especially in terms of safety and quality of food. The trade policy pursued by the Republic of Moldova at the current stage is focused on geographical diversification of the agri-food exports, primarily to reduce the risks caused by widespread non-tariff measures to protect certain markets.

The average annual volume of agri-food exports for the period 2010-2014 amounts to about 922 million US dollars. Export geography includes 113 countries, of which the top five account for cca. 54% of total agri-food exports. These are the Russian Federation, Romania, Belarus, Ukraine and Italy (see table 1).

Table 1. Top 10 export destination countries for agri-food products from the Republic of Moldova, 2010-2014, mil. US\$, %

Nr.	Country	Total trade value 2010-2014 (mil. US\$)	Share (%)	Cumulative share (%)
1	Russian Federation	1049,1	22,8	22,8
2	Romania	425,6	9,2	32,0
3	Belarus	398,6	8,6	40,6
4	Ukraine	375,2	8,1	48,8
5	Italy	238,6	5,2	54,0
6	United Kingdom	181,3	3,9	57,9
7	Poland	167,8	3,6	61,5
8	Germany	165,5	3,6	65,1
9	Turkey	162,9	3,5	68,7
10	Kazakhstan	147,1	3,2	71,9
	Other 103 countries	1297,3	28,1	100,0
	Total World	4609,1	100,0	

Source: Elaborated by authors based on UN Comtrade data base [9]

One can see certain evident tendencies in the agri-food exports' development. Thus exports to Russian Federation decreased from 242 mil. USD in 2010 to cca 131 mil. USD in 2014, or with about 85%. In the same, time agri-food exports to other countries have an increasing trend. Thus, these exports to Romania, Belarus and Ukraine increased during the period on average with 58%, 76% and 37% respectively, while agri-food exports to Italy increased almost six fold during the same period. Per total agri-food exports of the Republic of Moldova have increased during the period of 2010-2014 with about 46% (see table 2).

Table 2. Development of the agri-food exports to top 10 major destination countries and total World, 2010-2014, millions US\$, %

Nr.	Country	2010	2011	2012	2013	2014	2014/2010, (%)
1	Russian Federation	242,1	243,8	235,0	197,1	131,1	54,1
2	Romania	61,5	101,0	79,4	86,4	97,4	158,4
3	Belarus	69,2	62,6	69,0	75,9	121,8	176,0
4	Ukraine	52,9	92,2	68,7	88,9	72,5	137,0
5	Italy	13,6	45,7	57,2	41,0	81,0	594,6

6	United Kingdom	24,3	49,1	22,7	42,0	43,2	177,7
7	Poland	20,3	41,8	35,4	36,0	34,3	169,1
8	Germany	23,0	36,1	19,6	44,8	42,0	183,0
9	Turkey	27,0	22,2	16,1	45,1	52,4	194,1
10	Kazakhstan	23,7	26,9	29,0	29,9	37,7	159,5
	Other 103 countries	174,6	195,7	246,7	328,5	351,8	201,5
	<b>Total World</b>	<b>732,2</b>	<b>917,1</b>	<b>878,9</b>	<b>1015,5</b>	<b>1065,4</b>	<b>145,5</b>

Source: Elaborated by authors based on UN Comtrade data base [9]

Agri-food exports of Republic of Moldova have been strongly marked by a significant reduction of supplies to Russia in 2001-2008 and by the introduction of embargo in 2014. In 2010 more than 33% of Moldovan export revenues originated from Russia, comparing with about 12% of total agri-food exports in 2014. Currently, trade relations with Russia are gradually improving though it will take a long time to recover the trade flow up to the pre-embargo level.

The export structure is dominated by few groups of products which reflect a rather primitive structure of the agri-food exports where wine production, fruits, nuts, sunflower seeds and vegetable oils prevail. Export of livestock products is carried out on a much smaller scale. In general, the foreign market is supplied mainly with agricultural raw materials and semi-finished products. The top 5 groups of agri-food products amounted to about 76% of total agri-food exports during the period of 2010-2014. One can mention an 3,5 times increase of exports of products from the groups “02 Meat and edible meat offal” and 2,5 times increase of ~~of~~ those from the group “10 Cereals” (see table 3).

Table 3. Export of top 10 most important agri-food products from the Republic of Moldova, US\$ millions, %, 2010-2014

HS Code	Groups of products at 2 digits of HS	2010	2011	2012	2013	2014	Total 2010-2014	Share, %
22	Beverages, spirits and vinegar	178,2	181,3	215,0	252,3	193,7	1020,5	22,1
8	Edible fruit and nuts	167,6	187,0	202,3	204,0	194,0	954,9	20,7
12	Oil seeds and oleaginous fruits	90,4	181,5	99,9	166,6	154,2	692,6	15,0
10	Cereals	71,0	72,0	36,5	120,8	181,2	481,5	10,4
15	Animal or vegetable fats and oils	47,6	77,5	89,7	44,0	77,5	336,3	7,3
20	Preparations of vegetables, fruit, nuts or other parts of plants	52,3	68,8	60,4	76,1	59,7	317,1	6,9
17	Sugars and sugar confectionery	29,1	14,6	35,0	30,5	55,8	165,0	3,6
24	Tobacco and manufactured tobacco substitutes	27,2	28,7	34,2	25,5	16,7	132,3	2,9
2	Meat and edible meat offal	10,2	21,5	21,6	18,8	35,3	107,4	2,3
23	Residues and waste from the food industries	15,2	17,5	21,5	9,7	21,1	85,0	1,8
	Other 14 groups of agrifood products	43,6	66,8	62,8	67,2	76,1	316,5	6,9
	<b>Total agri-food exports</b>	<b>732,2</b>	<b>917,1</b>	<b>878,9</b>	<b>1015,5</b>	<b>1065,4</b>	<b>4609,1</b>	<b>100,0</b>

Source: Elaborated by authors based on UN Comtrade data base [9]

The Republic of Moldova is a member of the WTO and has signed trade agreements with 93 countries. Moldova has a regime of free trade with CIS partners, except of which are bans on imports of certain commodity positions agreed at the intergovernmental level. At a meeting of the CIS Council of Heads of Government of 18 October 2011, Moldova has signed a multilateral agreement on free trade zone, which replaced the bilateral agreements in the field of trade regime in the framework of the CIS. The agreement was ratified by the Parliament of the Republic of Moldova at 27 September 2012 and entered into force for Moldova from December 2012.

An important factor of the economic growth of the Republic of Moldova is the trade relations between the EU and Moldova. The EU's decision to open its market unilaterally to the Republic of Moldova in 2008, through the so-called autonomous trade preferences has led to the growth of mutual trade turnover. This trend will continue due to the signing of the Association Agreement, which includes a deep and comprehensive free trade area (DCFTA) between the EU and Moldova. This agreement creates new and closer political and economic relations between the EU and the Republic of Moldova [8]. At the same time, Moldova committed to the development of mutually advantageous trade with the CIS and other countries.

However, it should be noted the slow pace of growth in agricultural exports in 2004-2013. According to this index, Moldova's rank is the last among the CIS countries. One of the main reasons is the restrictions on imports and the embargo on certain groups of Moldovan agri-food products imposed by the Russian Federation. In the same period the volume of agri-food imports into Moldova has grown at a faster pace [2].

Discussions on strengthening the export orientation of the economy are conducted in Moldova for a long period of time. However, in society and in government circles is growing awareness that the export development is constrained by a number of general economic issues. The main ones are as follows:

- The high level of businesses fragmentation in the agricultural sector, food processing and foreign trade;
- Low level of productivity in all areas of agri-food sector, as a consequence of the use of outdated technologies;
- Unbalanced marketing activities, expressed in excessive concentration of the agricultural and food products trade in certain directions, and the sporadic nature of this trade with other countries and regions.
- Lack of interaction in the field of technology transfer between business, academic and university centers.

Moldova's foreign trade relations with other countries are based on respect for recognized principles and norms of international law and the obligations arising from international agreements concluded by the Republic of Moldova.

The state policy in the field of foreign trade is carried out by means of customs tariff and non-tariff regulation (in particular, through quotas and licensing), the introduction of the established procedure of special duties (i.e. special, antidumping and countervailing) in the foreign trade activity in accordance with the legal framework and the international treaties signed by the Republic of Moldova. The State shall ensure compliance of installed safeguards measures, limitations and restrictions in the field of foreign trade activities to reasons behind the need for their introduction. Preference is given to those protective measures, restrictions and prohibitions that cause minimal damage to the implementation of these activities and do not contradict international norms. [10]

The Republic of Moldova does not apply export duties, however, depending on the situation on the domestic market limitations for export or import of certain goods could be introduced. Import duties on agricultural products are on average 12%, with an average duty on all imported products in 5%. Non-tariff protection methods mostly limited to product labeling in the official language [3].

Certain changes in the trade policy of the Republic of Moldova took place after the conclusion of the Association Agreement, which includes a deep and comprehensive free trade area (DCFTA) between the EU and Moldova.

The agreement involves the removal of import duties on all products imported from the Republic of Moldova to the EU. For some fruits and vegetables this liberalization would imply some quantitative restrictions (tariff quotas), established in accordance with the production and export capacity of Moldova.

In connection with the opening of the Moldovan market for the EU, the Russian Federation has taken a number of measures to protect the domestic food market. Thus, in July 2014 were raised

the tariff duties on 19 commodity groups. Along with the increase in tariffs was introduced a temporary ban on imports of certain types of fruit and vegetable and animal products [4].

These export barriers have complicated the implementation of the Agri-food Sector Modernization Program 2020.

Given the lack of financial resources it was possible to realize only a few, but quite important areas of agriculture reform. During the recent years it was improved the qualitative and quantitative parameters of tractors and agricultural machinery. For this reason various forms of state financial support are used. Training services for machine and tractor stations, as well as for the farms' mechanics are provided free of charge by relevant government and non-governmental institutions.

The strategic goal of the Government to reform the system of food products quality control is implemented successfully. In order to achieve this, the following activities are undertaken:

- Improvement of the legislation that provides greater regulatory compliance with international standards and that reflect all aspects of food production from field to table, including the production of animal feed;
- Strengthening capacities of the National Agency for Food Safety that is obliged to perform a number of key tasks for managing all aspects of the food quality from the field to table, including activities of rapid alert systems, the dialogue and communication with customers, as well as relations with national agencies and scientific organizations;
- Improvement of the control over the food products' quality which will provide a uniform procedure for the operation of the national control and inspection system through an appropriate distribution of powers and responsibilities among all government agencies involved in ensuring food safety.

The budget support of the Moldovan agriculture varies considerably from year to year, reaching a peak of about 75 million US dollars in 2009. In 2012-2013, the total budgetary expenditure on agriculture amounted to 57 mln. US dollars, of which 60% was provided in the form of producer support, while the remaining 40% as the total support for agriculture [1].

Budget support of general services to agriculture (about 23 million US dollars in 2012-2013) increases from 2005, mainly due to the increase of funds for food safety monitoring, and protection and control of pests and diseases. In 2012-2013, these allocations accounted for nearly two-thirds of the total funds for public services. A fairly stable share of budget expenditures is allocated for rural infrastructure, while the share of funds allocated for agricultural research and education fell below 10% in recent years.

Domestic support to agriculture, since 2011, includes only the measures provided by the "green box" such as:

- General services
- Stocks for Food Security
- Payments to ease the effects of natural disasters
- Support for structural changes in the agricultural sector through the partial coverage of investment in technical upgrading.

In the period under review, the overall budget and other transfers account for about 4% of the total value of agricultural production that is significantly lower than in other CIS countries. [7]

Along with this, there were serious problems in the financial sector of Moldova that pose a threat to the sustainable economic development of the country. Weaknesses in the banking sector came to the fore in late 2014 with two successive decisions of the National Bank of Moldova on introduction of special administration in the three commercial banks, representing about 30% of total banking assets.

The budget deficit that emerged in this regard has limited possibilities to continue agricultural subsidies according to the scheme developed in recent years. The need to compensate farmers affected by restrictive measures imposed by the Russian Federation on the export of

agricultural products practically exhausted financial means of the Agency for Payments and Intervention. The procedure for obtaining this support was identified in June 2015, by order of the Minister of Agriculture and Food Industry, while payments were completed in September 2015. Compensations were allocated for those products that could not be sold fresh on the domestic market, due to the lack of market capacity. Most frequently these compensations were paid for fruits and grapes re-directed for processing. The size of this support was varied from 0.04 to 0.1 US dollars per kilogram of fruit or grapes delivered for processing in the Republic of Moldova. [5]

In 2015, that is almost a year after the embargo introduction a gradual resumption of fruit and grapes exports in the Russian Federation has started, which allowed a slight revival of trade relations between these two countries.

In order to exclude extreme situations in the agri-food trade between the two countries it is appropriate to improve the exchange of information on the improvement of mechanisms of regulation of markets for agri-food products, including the smoothing of seasonal price fluctuations for agri-food products and the use of the tariff regulation mechanism for imports of goods.

It may be useful to develop a closer cooperation between research institutes and universities for the development of innovative projects in the field of sustainable use of natural resources in the region and subsequently for improvement of the country agri-food exports.

## **CONCLUSIONS**

- There are positive trends in the development of the agri-food exports of the Republic of Moldova during the last years. However the vulnerability of this sector to natural, economic and commercial risks remains to be very high.
- The current situation in the international trade with agri-food products placed the Republic of Moldova in a difficult position. Exchange of sanctions between a number of Western countries and the Russian Federation provides multiple restrictions on the conduct of economic activities, including international trade that makes it necessary to review existing economic policies, forcing the government to urgently diversify export markets and to take measures to strengthen the economic security of the country.
- The food sector of the Republic of Moldova needs specific actions in order to stimulate development of the high value agriculture through creation of product sales centres, strengthening quality control, organizing regional wholesale markets, assisting producers to sell their products, development of market infrastructure at central level, development of the post harvest and market infrastructure.

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